

## Message Text

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ACTION EB-07

INFO OCT-01 EA-07 IO-10 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 1542

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

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GENEVA FOR USDEL MTN

E.O. 11652: N/A

TAGS: ETRD, ELIN, MY

SUBJ: MINISTER OF PRIMARY INDUSTRIES COMMENTS ON

TRIP TO U.S.; SEVENTH U.N. SPECIAL SESSION,

UNCTAD IV, AND RUBBER

REF: A. KUALA LUMPUR 0285; B. KUALA LUMPUR 5678 (1974);

C. KUALA LUMPUR 5647 (1974); D. KUALA LUMPUR 5615

1. SUMMARY. MINISTER OF PRIMARY INDUSTRIES, DATUK MUSA

HITAM SAYS GOM GENERALLY PLEASED WITH TONE AND CONTENT

OF SECRETARY KISSINGER'S SPEECH AT SEVENTH U.N. SPECIAL

SESSION AND THAT PROPOSALS SUCH AS DEVELOPMENT SECURITY FINANCING

FACILITY AT IMF SHOULD BE STUDIED CAREFULLY AND NOT RE-

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JECTED OUT OF HAND, AS SUGGESTED BY SOME LDC'S, BECAUSE

IT INITIATED BY MOST POWERFUL INDUSTRIALIZED COUNTRY IN WORLD. MALAYSIA REGARDS UNCTAD COMMON FUND FOR FINANCING COMMODITY STOCKS AS MOST IMPORTANT ELEMENT OF UNCTAD PROGRAM. ANRPC (ASSOCIATION OF NATURAL RUBBER PRODUCING COUNTRIES) SHOULD FINISH REVIEW OF PROPOSED RUBBER PRICE STABILIZATION AGREEMENT BY MID-NOVEMBER. UNILATERAL PRODUCTION CONTROLS ON RUBBER IN MALAYSIA, INSTITUTED ON CRASH BASIS FOLLOWING DEMONSTRATIONS IN DECEMBER 1974, HAVE CAUSED SOME DISSATISFACTION AMONG RUBBER DEALERS AND LARGE RUBBER ESTATES, BUT POLITICAL FACT IS THAT SMALL HOLDERS ARE HAPPY BECAUSE RUBBER PRICE HAS INCREASED TO M\$1.40 PER KILO FROM LOW OF M\$.097 PER KILO. MALAYSIA APPROACHES TRADE NEGOTIATIONS IN PRAGMATIC, REASONABLE MANNER, AND WILL CONTINUE TO DO SO IN FUTURE. EMBASSY CONSIDERS MUSA HITAM'S COMMENTS TO BE ACCURATE REFLECTION OF GOM POLICIES AND ATTITUDES ON COMMODITIES ISSUES. END SUMMARY.

2. DATUK MUSA HITAM, MINISTER OF PRIMARY INDUSTRIES, MADE FOLLOWING COMMENTS RELATED TO COMMODITIES ISSUES DURING SPEECH AND QUESTION AND ANSWER SESSION AT LOCAL SEMINAR ON "THE NEW INTERNATIONAL ECONOMIC ORDER AND UNCTAD IV: IMPLICATIONS FOR MALAYSIA".

A. SEVENTH U.N. SPECIAL SESSION. GOM WAS GENERALLY PLEASED WITH TONE AND SUBSTANCE OF SECRETARY KISSINGER'S SPEECH WHICH GOM VIEWED AS MARRIAGE OF POLICIES AND PROPOSALS OF SECRETARY SIMON AND SECRETARY KISSINGER, KEY TRADE POLICY MAKERS IN THE FORD ADMINISTRATION. AS MAJOR TRADING NATION IN WORLD TODAY, U.S. INITIATIVES ON COMMODITIES ARE LIKELY TO BE FOLLOWED BY OTHER DEVELOPED COUNTRIES. IN CONTEXT OF MOVING DOWN LONG AND PRECARIOUS ROAD TO CREATION OF NEW INTERNATIONAL ECONOMIC ORDER, MALAYSIA WELCOMES DIALOGUE BETWEEN LDC'S AND DEVELOPED COUNTRIES TO GIVE MEANING AND SUBSTANCE TO RESOLUTIONS ADOPTED BY U.N.

GOM ENCOURAGED BY U.S. INITIATIVES IN DIRECTIONS LIKE STABILIZATIONS OF EXCHANGE EARNINGS OF DEVELOPING COUNTRIES THROUGH NEW PROPOSAL FOR DEVELOPMENT SECURITY FINANCING FACILITY AT IMF. PROPOSAL SHOULD BE STUDIED  
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CAREFULLY BY DEVELOPING COUNTRIES AND NOT REJECTED OUT OF HAND, AS SUGGESTED BY SOME LDC'S SIMPLY BECAUSE IT COMES FROM MOST POWERFUL INDUSTRIALIZED COUNTRY IN WORLD.

B. UNCTAD IV. MALAYSIA REGARDS PROPOSED COMMON FUND FOR FINANCING OF COMMODITY STOCKS AS MOST IMPORTANT ELEMENT UNCTAD PROGRAM AND ESTABLISHMENT IS ESSENTIAL IF INTEGRATED PLAN FOR COMMODITIES IS TO MAKE MAJOR IMPACT.

GOM BELIEVES THAT IMPORTERS AND EXPORTERS SHOULD CONTRIBUTE TO CAPITAL OF UNCTAD COMMON FUND. ANOTHER PROMISING SOURCE OF FUNDS IS PETROLEUM EXPORTING COUNTRIES. DURING Q AND A PERIOD, MINISTER MUSA HITAM SAID GOM FAVORS UNCTAD COMMON FUND BECAUSE QUOTE SOME OF THE LOAN WINDOWS AT IMF, IBRD, AND ADB ARE NOW CLOSED TO MALAYSIA BECAUSE THEY SAY WE ARE TOO WEALTHY COMPARED TO OTHER DEVELOPING COUNTRIES. UNCTAD COMMON FUND WOULD PROVIDE US WITH AN ADDITIONAL SOURCE OF FUNDING. UNQUOTE.

C.NATIONAL STOCKPILES. GOM STRONGLY BELIEVES THAT ESTABLISHMENT OF INDIVIDUAL NATIONAL STOCKPILES IS NOT ANSWER TO PROBLEM OF SECURITY OF SUPPLY. INDIVIDUAL NATIONAL STOCKPILES WOULD ADD FURTHER ELEMENTS OF INSTABILITY TO COMMODITY TRADE AND TIE UP VAST AMOUNTS OF RESOURCES IN DUPLICATING SCHEMES.

D. RUBBER PRICE STABILIZATION SCHEME AT ONE POINT DURING Q AND A PERIOD DATUK MUSA HITAM REFERRED TO ASSISTANT SECRETARY TOM ENDERS AS A "HAWK" ON COMMODITY BUFFER STOCKS AND STABILIZATION SCHEMES, I.E., ENDERS STRONGLY FAVORS SUCH SCHEMES. HE SAID ENDERS WAS EXTREMELY INTERESTED IN MALAYSIAN RUBBER PRICE STABILIZATION SCHEME AND SPENT MOST OF THEIR MEETING IN WASHDC ASKING QUESTIONS ABOUT PROPOSED SCHEME.

REGARDING SCHEME, MUSA HITAM SAID ANRPC (ASSOCIATION OF NATURAL RUBBER PRODUCING COUNTRIES) AT STAGE OF REVIEWING PROPOSED RUBBER PRICE STABILIZATION AGREEMENT CLAUSE BY CLAUSE AND HE EXPECTED REVIEW WOULD BE FINISHED BY MID-NOVEMBER. HE CATEGORIZED MEMBER COUNTRIES OF ANRPC AS BEING IN TWO GROUPS: THOSE COUNTRIES WHICH ARE VERY KNOWLEDGEABLE ABOUT RUBBER AND PRICE STABILIZATION

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SCHEMES BUT PRETEND NOT TO UNDERSTAND, AND THOSE COUNTRIES WHICH REALLY DO NOT UNDERSTAND. MALAYSIA HAD LARGEST STAKE IN SCHEME AND THEREFORE MAKING EVERY EFFORT TO PERSUADE FIRST GROUP AND EDUCATE SECOND GROUP.

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E. RUBBER PRODUCTION CONTROLS AND DOMESTIC POLITICS.

QUESTION RAISED WHETHER GOM ACTED WISELY IN UNILATERALLY REDUCING ITS RUBBER PRODUCTION THROUGH CONTROLS WHILE OTHER PRODUCERS CONTINUED AT FULL PRODUCTION. MUSA HITAM REPLIED THAT GOM HAD TO RESPOND QUICKLY TO "BALING INCIDENT" LAST DECEMBER WITH "CRASH" PROGRAM DESIGNED RAISE RUBBER PRICES IN SHORT RUN. SAID HE CERTAIN BE-YOND ANY DOUBT RIGHT ACTIONS WERE TAKEN AND PROOF IS INCREASE IN PRICE OF RUBBER FROM LOW OF M\$0.97 PER KILO IN DECEMBER 1974 TO CURRENT PRICE OF ABOUT M\$1.40 PER KILO, WHICH IS HOLDING STEADY.

HE STATED HE AWARE RUBBER DEALERS WERE NOT HAPPY WITH PROPOSED PRICE STABILIZATION SCHEME AND WITH HAVING TO HOLD ADDITIONAL STOCKS BECAUSE THEY MADE THEIR LIV-INGS SPECULATING ON FLUCTUATIONS IN PRICE OF RUBBER. HE ALSO KNEW SOME OF LARGE RUBBER ESTATES WERE DISSAT-LIMITED OFFICIAL USE

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ISFIED WITH PRODUCTION CONTROLS. HE SAID, "...HOWEVER, THE 'RAKYAT' (PEASANTS) ARE HAPPY WITH THE PRICE OF RUBBER AT M\$1.40 AND THAT IS AN INESCAPABLE POLITICAL FACT OF LIFE".

F. INDEXING. MUSA HITAM SAID INDEXING CONSIDERED TO BE BAD CONCEPT BY INDUSTRIALIZED COUNTRIES AND HE UNDER INSTRUCTIONS NOT TO COMMENT ON IT. NOT INTIMATELY FAMILIAR WITH CONCEPT, BUT HIS INSTINCTS WERE THAT IT WAS NOT GOOD FOR THE VERY POOR NATIONS. NOTED THAT OIL RICH IRAN IS FOREMOST PROPOSER, BUT NOT SURE INDEXING BENEFICIAL TO PEANUT EXPORTER LIKE MALAWI, FOR EXAMPLE.

G. GOM COMMODITIES POLICIES AND MODERATE IMAGE. MUSA HITAM STATED THAT MALAYSIA APPROACHING TRADE NEGOTIATIONS IN PRAGMATIC, REASONABLE MANNER AND CONSIDERS ITSELF TO BE RESPECTED MODERATE BY LDC'S AND INDUSTRIALIZED COUNTRIES. MALAYSIA HAS ASSIDUOUSLY CULTIVATED AND NURTURED THIS IMAGE IN INTERNATIONAL FORUMS OVER A NUMBER OF YEARS. GOM BELIEVES THIS APPROACH BEST SERVES ITS INTERESTS, AND INTENDS CONTINUE FOLLOW THIS COURSE IN FUTURE.

MUSA HITAM VIEWS COMMODITIES POLICIES ON TWO LEVELS, NATIONAL AND INTERNATIONAL. HE BELIEVES IN PROMOTING POLICIES FIRST AT NATIONAL LEVEL, WHERE FEASIBLE, AND AFTER SUCCESSFUL NATIONAL TRACK RECORD ESTABLISHED, THEN GOING INTERNATIONAL WITH PROPOSAL OR MODIFIED VERSION, AS IN CASE OF RUBBER. HE BELIEVES COMMON COMMODITY STOCK FUND COULD BE TRIED IN MALAYSIA--COMMON FUND TO SUPPORT RUBBER, TIMBER, PALM OIL, COCONUTS, ETC. HE IS PUSHING IDEA WITHIN GOM, BUT HAS NOT HAD MUCH SUCCESS TO DATE.

3. COMMENT. DATUK MUSA HITAM MADE ABOVE COMMENTS TO AUDIENCE OF ABOUT 100 MALAYSIANS, MOSTLY ACADEMIC ECONOMISTS AND GOM MIDDLE-LEVEL CIVIL SERVANTS. EMBASSY CONSIDERS MUSA HITAM'S STATEMENTS TO BE ACCURATE AND FORTHRIGHT REFLECTION OF GOM ATTITUDES AND POLICIES ON COMMODITIES ISSUES. EMPHASIS IS ON RUBBER BECAUSE OF ITS OVERRIDING POLITICAL AND ECONOMIC IMPORTANCE TO MALAYSIA. SOME 550,000 SMALLHOLDERS, LIMITED OFFICIAL USE

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MOSTLY BUMIPUTRAS (INDIGENOUS MALAYS) WHO WITH FAMILIES TOTAL 2.5 - 3 MILLION PERSONS, ARE DEPENDENT ON RUBBER FOR THEIR LIVELIHOODS, AND RUBBER STILL ACCOUNTS FOR 30 PERCENT OF EXPORTS AND 17 PERCENT OF GDP.

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